

DIRECT TESTIMONY AND EXHIBITS OF

CHRISTINA L. SEALE

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-82-S

IN RE: APPLICATION OF PALMETTO WASTEWATER RECLAMATION,

LLC FOR ADJUSTMENT OF RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Christina L. Seale. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Auditor, in the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree with a major in Accounting and a minor in Computer Systems and Applications from Columbia College. Prior to my employment with ORS, I performed agreed-upon procedures engagements and statewide single audits of various South Carolina state agencies for the South Carolina Office of the State Auditor. In 2005, I joined ORS and have testified and participated in numerous rate cases and various other filings of utility companies.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

1 The concerns of the using and consuming public with respect to public
2 utility services, regardless of the class of customer, and preservation of
3 continued investment in and maintenance of utility facilities so as to provide
4 reliable and high-quality utility services.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 **A.** The purpose of my testimony is to set forth my findings and recommendations
7 resulting from ORS's examination of the application of Palmetto Wastewater Reclamation,
8 LLC ("PWR" or "Company") in this docket, 2018-82-S. The application was filed on
9 November 6, 2018.

10 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
11 **EXAMINATION OF THE APPLICATION OF PWR.**

12 **A.** ORS's examination of the Company's application consisted of three major steps.
13 In step one, ORS verified that the operating experience, reported by the Company in its
14 application, was supported by PWR's accounting books and records for the twelve months
15 ending August 31, 2018 ("test year"). In the second step, ORS tested the underlying
16 transactions in the books and records for the test year to ensure that the transactions were
17 adequately supported, had a stated business purpose, were allowable for ratemaking
18 purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting,
19 as necessary, the revenues, expenditures, and capital investments to normalize the
20 Company's operating experience and rate base, in accordance with generally accepted
21 regulatory principles and prior Public Service Commission of South Carolina ("PSC")
22 orders.

23 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.**

24 **A.** I have attached the following exhibits to my testimony relating to the application:

- Audit Exhibit CLS-1: Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
- Audit Exhibit CLS-2: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit CLS-3: Computation of Depreciation and Amortization Expense (Alpine and Woodland Utilities Service Areas)
- Audit Exhibit CLS-4: Computation of Income Taxes
- Audit Exhibit CLS-5: Cash Working Capital
- Audit Exhibit CLS-6: Weighted Cost of Capital
- Audit Exhibit CLS-7: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for wastewater utility rate cases. These exhibits show various aspects of PWR's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CLS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit CLS-1 details PWR's operating experience, rate base and rate of return for the test year. The exhibit's format is designed to reflect the Company's application per book amounts, ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's test year operations, and calculate the impact of ORS's proposed increase on the normalized test year.

Column (1) details the application per book amounts reported by PWR for the test year. ORS verified total operating revenues of \$3,257,650, total operating expenses of

1 \$2,102,813 and net income for return of \$1,135,978 to the Company's books and records.
2 The per book rate base of \$9,945,657 produced a return on rate base of 11.42%. As shown
3 on CLS-6, the resulting return on equity was 16.49%.

4 Column (2) details ORS's proposed accounting and pro forma adjustments
5 designed to normalize the application per books. An explanation of each adjustment is
6 contained in Audit Exhibit CLS-2.

7 Column (3) details ORS's calculation of a normalized test year for PWR by adding
8 columns (1) and (2). After the accounting and pro forma adjustments, net income for return
9 of \$562,445 was computed using total operating revenues of \$3,361,460, less total
10 operating expenses of \$2,799,015. Total rate base of \$9,774,185 produced a return on rate
11 base of 5.75%. As shown on Audit Exhibit CLS-6, the resulting return on equity was
12 6.34%.

13 Column (4) details ORS's proposed increase, the taxes associated with the ORS's
14 proposed increase and the amortization of excess revenues and excess deferred income
15 taxes ("EDIT"). An explanation of each adjustment is contained in Audit Exhibit CLS-2.

16 Column (5) details the effect of ORS's proposed increase by adding columns (3)
17 and (4). Net income for return of \$738,023 was computed using total operating revenues
18 of \$3,475,976, less total operating expenses of \$2,828,851, plus amortization of excess
19 revenues and amortization of EDIT of \$90,898. Total rate base of \$9,774,185 produced a
20 return on rate base of 7.55%. As shown on Audit Exhibit CLS-6, the resulting return on
21 equity was 9.60%.

22 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CLS-2.**

A. For comparative purposes, ORS's and PWR's proposed adjustments are both presented in Audit Exhibit CLS-2.

Adjustment 1 – Utility Operating Revenues – ORS Utility Rates Department's total operating revenue adjustment is \$103,810. This adjustment is comprised of the following operating revenue adjustments and details are reflected in ORS witness Anthony Sandonato's Exhibit AMS-2:

Adjustment 1A – Residential – The ORS Utility Rates Department proposes to adjust residential revenues to reflect the most recent equivalent residential connections.

Adjustment 1B – Residential-Mobile Home Parks – The ORS Utility Rates Department proposes to adjust residential-mobile home park revenues to reflect the most recent equivalent residential connections.

Adjustment 1C – Commercial – The ORS Utility Rates Department proposes to adjust commercial revenues to reflect the most recent equivalent residential connections.

Adjustment 1D – Multiple Family Dwellings – The ORS Utility Rates Department proposes to adjust multiple family dwelling revenues to reflect the most recent equivalent residential connections.

Adjustment 1E – Other Wastewater Revenues – The ORS Utility Rates Department proposes to adjust other revenues at the end of the test year.

Adjustment 2 – Utility Operating Expenses – ORS's total operating expense adjustment is \$517,290. This adjustment is comprised of the following operating expense adjustments:

Adjustment 2A – Contract Services-Legal and Accounting – ORS and the Company propose to add legal and accounting costs of \$7,275 incurred during the test year but originally recorded at an affiliated company.

1 Adjustment 2B – Contract Services-Management Fees – ORS and the Company propose
2 to annualize management fees for the ESG Operations, Inc. contract. ORS proposes to
3 annualize management fees based on the current and most recent contract for an adjustment
4 of \$11,428. The Company proposed to annualize management fees on a previous contract.

5 Adjustment 2C – Contract Services-Other – ORS and the Company propose to include the
6 cost of the software and support annual subscription for the Company’s camera truck. ORS
7 proposes to allocate this expense between PWR (83%) and its sister company, Palmetto
8 Utilities, Inc. (“PUI”), (17%) based on each entity’s respective usage, for a total adjustment
9 of \$725. The Company did not propose to allocate a portion of this expense to PUI in its
10 application.

11 Adjustment 2D – General Liability and Other Insurance – ORS and the Company propose
12 to adjust insurance expense. ORS annualized the Company’s most recent insurance
13 policies totaling \$54,744, less per books insurance expense of \$62,199 for a total
14 adjustment of (\$7,455).

15 Adjustment 2E – Rate Case Expenses – ORS and the Company propose to amortize rate
16 case expenses over three years. ORS proposes to include allowable rate case expenses as
17 of February 12, 2019. ORS did not allow the inclusion of rate case expenses of \$14,850
18 due to the expenses being related to an application with a different test year not filed by
19 the Company and other non-rate case related items of \$265. The total proposed ORS
20 adjustment of \$27,114 is computed using total allowable rate case expenses of \$81,342,
21 divided by three. The Company’s adjustment was based on estimated rate case expenses
22 of \$199,725, divided by three.

1 Adjustment 2F – Bad Debt Expense – ORS and the Company propose to adjust bad debt
2 expense using a bad debt percentage of 1% of total revenues. ORS applied the 1% bad
3 debt percentage to total revenues after accounting and pro forma adjustments, less per book
4 bad debt expense of \$81,876, for its total bad debt expense adjustment. The ORS Utility
5 Rates Department reviewed the Company's bad debt percentage.

6 Adjustment 2G – Miscellaneous Expenses – ORS and the Company propose to allocate a
7 portion of Ni America's corporate overhead expenses to PWR. ORS calculated an
8 adjustment of \$544,402. ORS annualized salaries as of December 31, 2018 in its
9 calculation of the adjustment, whereas the Company included test year salaries. Also, per
10 recommendation from the ORS Utility Rates Department, a portion of an employee's salary
11 and benefits, previously recovered in the Lockhart Power Company rate case (Docket No.
12 2013-392-E), was removed from the Pacolet Milliken, LLC salaries and benefits the
13 Company proposed to allocate. ORS witness Anthony Sandonato further details this
14 adjustment in his direct testimony. ORS's adjustment also removed additional
15 nonallowable expenses that had no stated business purpose, itemized receipt, list of
16 attendees, or were for expenses incurred outside of the test year.

17 Adjustment 2H – Expenses Incurred Outside Test Year – ORS proposes to remove
18 expenses incurred outside the test year of \$15,871.

19 Adjustment 2I – Nonallowable Expenditures – ORS proposes to remove expenses of
20 \$2,067 that were not adequately supported.

21 Adjustment 3 – Depreciation and Amortization – ORS's total depreciation and
22 amortization expense adjustment is \$54,669. This adjustment is comprised of the
23 following adjustments:

1 Adjustment 3A – Depreciation Expense – ORS and the Company propose to adjust
2 depreciation expense to reflect new capital expenditures. ORS calculated depreciation
3 expense based on the actual plant in service not fully depreciated included in PWR's
4 property record detail as of January 31, 2019. The Company's depreciation expense
5 adjustment was calculated using estimated capital expenditures. In addition, ORS reduced
6 plant in service by \$102,944 to remove 17% of a vacuum truck and a camera truck's cost
7 shared with PUI based on each entity's respective usage. See Audit Exhibit CLS-3 for the
8 calculation.

9 Adjustment 3B – Amortization of Contribution in Aid of Construction ("CIAC") – ORS
10 and the Company propose to adjust amortization of CIAC. ORS calculated amortization
11 of CIAC based on the CIAC included in PWR's property record detail as of January 31,
12 2019. The Company calculated amortization of CIAC as of August 31, 2018. ORS also
13 did not include fully amortized CIAC in the calculation of its adjustment to the
14 amortization of CIAC. See Audit Exhibit CLS-3 for the calculation.

15 Adjustment 4 – Taxes Other Than Income – ORS's total taxes other than income
16 adjustment is \$64,844. This adjustment is comprised of the following adjustments:

17 Adjustment 4A – Utility Regulatory Assessment Fees – ORS and the Company propose to
18 adjust utility regulatory assessment fees after accounting and pro forma adjustments by
19 applying the gross receipts factor of 0.471772446% to total pro forma revenue, less the per
20 book amount of \$33,358.

21 Adjustment 4B – Property Taxes – ORS and the Company propose to adjust property taxes
22 to reflect new capital expenditures. ORS proposes an adjustment of \$82,344 to property
23 taxes to reflect new capital expenditures and other adjustments to plant in service. ORS

1 computed the adjustment by applying the Company's proposed assessment ratio and
2 millage rates to the net plant in service of \$10,958,486, as calculated by ORS as of January
3 31, 2019, less the per book property taxes. The Company used estimated net plant in
4 service of \$10,980,662 in the calculation of its adjustment.

5 Adjustment 5 – Income Taxes – ORS's total income tax adjustment is \$59,399. This
6 adjustment is comprised of the following adjustments:

7 Adjustment 5A – State Income Taxes – ORS and the Company propose to adjust state
8 income taxes after accounting and pro forma adjustments using the South Carolina
9 corporate income tax rate of 5%. Details of the computation of income taxes are shown in
10 Audit Exhibit CLS-4.

11 Adjustment 5B – Federal Income Taxes – ORS and the Company propose to adjust federal
12 income taxes after accounting and pro forma adjustments using the federal tax rate of 21%.
13 Details of the computation of income taxes are shown in Audit Exhibit CLS-4.

14 Adjustment 6 – Other Income-Allowance for Funds Used During Construction
15 ("AFUDC") – ORS and the Company propose to exclude AFUDC as it should not be
16 included in the calculation of the pro forma revenue requirement. The Company gains
17 recovery of AFUDC through depreciation expense once the associated plant assets have
18 been placed in service.

19 Adjustment 7 – Amortization of Debt Expense – ORS and the Company propose to remove
20 the amortization of debt expense. Debt expense is included in the calculation of the
21 weighted average cost of debt for the calculation of interest expense.

22 Adjustment 8 – Plant In Service – ORS and the Company propose to adjust plant in service
23 to reflect new capital expenditures. ORS calculated total plant in service of \$15,064,361

1 using PWR's property record detail of \$15,167,305 as of January 31, 2019, less \$102,944
2 associated with 17% of the costs of the vacuum and camera trucks shared with PUI based
3 on each entity's respective usage. See Audit Exhibit CLS-3 for the details. ORS's
4 calculated plant in service of \$15,064,361, less the application per book amount of
5 \$14,464,745, equals ORS's adjustment of \$599,616. The Company used estimated total
6 plant in service in its calculation and did not allocate any portion of the shared trucks to
7 PUI.

8 Adjustment 9 – Accumulated Depreciation – ORS proposes to adjust accumulated
9 depreciation to reflect new capital expenditures. ORS calculated total accumulated
10 depreciation of (\$3,817,226) using the accumulated depreciation on PWR's property
11 record detail of (\$3,843,384) as of January 31, 2019, reduced by \$24,306, which
12 corresponds to 17% of the accumulated depreciation of the trucks shared with PUI based
13 on each entity's respective usage. ORS also reduced accumulated depreciation by \$1,852
14 to correct for items fully depreciated. See Audit Exhibit CLS-3 for the details. ORS's
15 calculated accumulated depreciation of (\$3,817,226) less the application per book amount
16 of (\$3,607,582) equals ORS's adjustment of (\$209,644).

17 Adjustment 10 – Contributions in Aid of Construction – ORS proposes to adjust CIAC using
18 the actual CIAC included in PWR's property record detail of (\$696,358) as of January 31,
19 2019, less the per book CIAC of (\$692,107), for an adjustment of (\$4,251).

20 Adjustment 11 – Accumulated Amortization of CIAC – ORS proposes to adjust accumulated
21 amortization of CIAC using the actual accumulated amortization included in PWR's property
22 record detail of \$407,709 as of January 31, 2019, less the per book accumulated CIAC of
23 \$403,288, for an adjustment of \$4,421.

1 Adjustment 12 – Accumulated Deferred Income Taxes (“ADIT”) – ORS and the Company
2 propose an adjustment to ADIT of (\$1,564).

3 Adjustment 13 – Excess Deferred Income Taxes (“EDIT”) – ORS proposes to adjust rate
4 base for the creation of an excess deferred income tax liability resulting from lower federal
5 tax rates as calculated by the ORS Utility Rates Department. This adjustment is discussed
6 in further detail in the testimony of ORS witness Matthew Schellinger and reflected in
7 Exhibit MPS-1.

8 Adjustment 14 – Cash Working Capital – ORS and the Company propose to adjust for cash
9 working capital for the accounting and pro forma adjustments. ORS used a 45 day allowance
10 or 1/8 of total operating expenses after the accounting and pro forma adjustments for the cash
11 working capital adjustment. Details of this adjustment are included in Audit Exhibit CLS-5.

12 Adjustment 15 – Interest Expense – ORS and the Company propose to adjust interest
13 expense using interest synchronization. ORS calculated its adjustment using an allowable
14 rate base of \$9,774,185, a 45% debt and 55% equity capital structure and a 5.04% weighted
15 average cost of debt, as proposed by ORS witness David Parcell. ORS applied the weighted
16 average cost of debt to the portion of the Company’s rate base funded by debt to generate
17 synchronized interest expense of \$221,679. This amount less the Company’s per book
18 interest expense of \$920,369 yields an adjustment of (\$698,690).

19 Adjustment 16 – Utility Operating Revenues – As calculated by the ORS Utility Rates
20 Department, ORS’s recommended rate increase would produce total additional revenues of
21 \$114,516. This adjustment is comprised of the following operating revenue adjustments
22 and details are reflected in ORS witness Anthony Sandonato’s Exhibit AMS-2:

1 Adjustment 16A – Residential – ORS proposes to adjust residential revenues to reflect the
2 proposed rates as calculated by the ORS Utility Rates Department.

3 Adjustment 16B – Residential-Mobile Home Parks – ORS proposes to adjust residential-
4 mobile home park revenues to reflect the proposed rates as calculated by the ORS Utility
5 Rates Department.

6 Adjustment 16C – Commercial – ORS proposes to adjust commercial revenues to reflect
7 the proposed rates as calculated by the ORS Utility Rates Department.

8 Adjustment 16D – Multiple Family Dwellings – ORS proposes to adjust multiple family
9 dwelling revenues to reflect the proposed rates as calculated by the ORS Utility Rates
10 Department.

11 Adjustment 16E – Other Wastewater Revenues – ORS proposes to adjust other revenues
12 to reflect the proposed rates as calculated by the ORS Utility Rates Department.

13 Adjustment 17 – Bad Debt Expense – ORS and the Company propose to adjust bad debt
14 expense using a bad debt percentage of 1% of the proposed increase to revenues.

15 Adjustment 18 – Utility Regulatory Assessment Fees – ORS and the Company propose to
16 adjust utility regulatory assessment fees associated with the Company's proposed increase
17 by applying the gross receipts factor of 0.471772446% to the proposed increase.

18 Adjustment 19 – Income Taxes – ORS's total income tax adjustment is \$28,151. This
19 adjustment is comprised of the following adjustments:

20 Adjustment 19A – State Income Taxes – ORS and the Company propose to adjust state
21 income taxes for the proposed increase using the South Carolina corporate income tax rate
22 of 5%. Details of the computation of income taxes are shown in Audit Exhibit CLS-4.

Adjustment 19B – Federal Income Taxes – ORS and the Company propose to adjust federal income taxes for the proposed increase using the federal tax rate of 21%. Details of the computation of income taxes are shown in Audit Exhibit CLS-4.

Adjustment 20 - Amortization of Excess Revenues and EDIT – ORS’s total amortization of excess revenue and EDIT adjustment is \$90,898 and is comprised of the following adjustments:

Adjustment 20A - Amortization of Excess Revenues – ORS proposes an adjustment of \$77,236 to the Company’s net utility operating income due to the Tax Cuts and Jobs Act. This adjustment is discussed in further detail in the testimony of ORS witness Matthew Schellinger and reflected in Exhibit MPS-2.

Adjustment 20A - Amortization of Excess Deferred Income Taxes – ORS proposes an adjustment of \$13,662 to the Company’s net utility operating income due to the Tax Cuts and Jobs Act. This adjustment is discussed in further detail in the testimony of ORS witness Matthew Schellinger and reflected in Exhibit MPS-1.

Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

A. Audit Exhibit CLS-3 details the computation of ORS’s depreciation and amortization expense adjustments. Audit Exhibit CLS-4 details the computation of income taxes. Audit Exhibit CLS-5 details the calculation of the cash working capital. Audit Exhibit CLS-6 details the calculation of the weighted cost of capital and interest expense. Audit Exhibit CLS-7 details the operating experience, operating margin and rate base for the test year. The exhibit’s format is designed to reflect the application per books and ORS’s proposed accounting and pro forma adjustments necessary to normalize the results of the

1 Company's test year operations and to reflect the Company's proposed increase as
2 recalculated by ORS.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.**Yes, it does.

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Operating Experience, Rate Base and Rate of Return Reflecting ORS's Proposed Increase
For the Test Year Ended August 31, 2018

<u>Description</u>	(1) <u>Per Application</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>ORS's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,257,650	103,810 (1)	3,361,460	114,516 (16)	3,475,976
<u>Total Utility Operating Revenues</u>	<u>3,257,650</u>	<u>103,810</u>	<u>3,361,460</u>	<u>114,516</u>	<u>3,475,976</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	946,889	517,290 (2)	1,464,179	1,145 (17)	1,465,324
Depreciation and Amortization	521,507	54,669 (3)	576,176	0	576,176
Taxes Other Than Income Taxes	580,530	64,844 (4)	645,374	540 (18)	645,914
Income Taxes	53,887	59,399 (5)	113,286	28,151 (19)	141,437
<u>Total Utility Operating Expenses</u>	<u>2,102,813</u>	<u>696,202</u>	<u>2,799,015</u>	<u>29,836</u>	<u>2,828,851</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,154,837</u>	<u>(592,392)</u>	<u>562,445</u>	<u>84,680</u>	<u>647,125</u>
Add: Other Income - AFUDC	16,578	(16,578) (6)	0	0	0
Less: Amortization of Debt Expense	35,437	(35,437) (7)	0	0	0
Add: Amortization of Excess Revenues & EDIT	0	0	0	90,898 (20)	90,898
<u>Net Income (Loss) for Return</u>	<u>1,135,978</u>	<u>(573,533)</u>	<u>562,445</u>	<u>175,578</u>	<u>738,023</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	14,464,745	599,616 (8)	15,064,361	0	15,064,361
Accumulated Depreciation	(3,607,582)	(209,644) (9)	(3,817,226)	0	(3,817,226)
Contributions in Aid of Construction (CIAC)	(692,107)	(4,251) (10)	(696,358)	0	(696,358)
Accumulated Amortization of CIAC	403,288	4,421 (11)	407,709	0	407,709
Net Plant	10,568,344	390,142	10,958,486	0	10,958,486
Accumulated Deferred Income Taxes	(974,895)	(1,564) (12)	(976,459)	0	(976,459)
Excess Deferred Income Taxes (EDIT)	0	(456,531) (13)	(456,531)	0	(456,531)
Materials and Supplies	8,138	0	8,138	0	8,138
Prepayments	57,529	0	57,529	0	57,529
Cash Working Capital	286,541	(103,519) (14)	183,022	0	183,022
<u>Total Rate Base</u>	<u>9,945,657</u>	<u>(171,472)</u>	<u>9,774,185</u>	<u>0</u>	<u>9,774,185</u>
<u>Return on Rate Base</u>	<u>11.42%</u>		<u>5.75%</u>		<u>7.55%</u>
<u>Operating Margin</u>	<u>6.62%</u>		<u>10.14%</u>		<u>14.85%</u>
<u>Interest Expense</u>	<u>920,369</u>	<u>(698,690) (15)</u>	<u>221,679</u>	<u>0</u>	<u>221,679</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
<u>Accounting and Pro forma Adjustments</u>				
(1) <u>Operating Revenues</u>				
(1A)	(1)	To adjust residential revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	\$ (4,051)	\$ (1,153)
(1B)	(2)	To adjust residential-mobile home park revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	15,759	15,759
(1C)	(1), (2)	To adjust commercial revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	(26,511)	(28,175)
(1D)	(1), (2), & (3)	To adjust multiple family dwelling revenues to reflect the most recent equivalent residential connections as calculated by the ORS Utility Rates Department.	113,244	(9,300)
(1E)		To reflect adjustments to other revenues at the end of the test year. This adjustment was provided by the ORS Utility Rates Department.	5,369	0
(1)		<u>Total Operating Revenues</u>	\$ <u>103,810</u>	\$ <u>(22,869)</u>
(2) <u>Operating Expenses</u>				
(2A)	(4)	To include legal and accounting costs in test year expenses.	\$ 7,275	\$ 7,275
(2B)	(5)	To annualize management fees for the ESG Operations Contract.	11,428	8,814
(2C)	(6)	To include cost related to software and support for camera truck.	725	938
(2D)	(7)	To annualize insurance for the test year.	(7,455)	762
(2E)	(8)	To amortize current rate case expenses over three years.	27,114	66,575
(2F)	(9)	To reflect bad debt expense at 1% of total revenue at present rates.	(48,261)	(49,528)

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(2G)	(10)	To allocate allowable Ni America overhead costs to PWR.	544,402	549,703
(2H)		To remove expenses incurred outside of the test year.	(15,871)	0
(2I)		To remove nonallowable expenditures.	(2,067)	0
(2)		<u>Total Operating Expenses</u>	\$ 517,290	\$ 584,539
(3)		<u>Depreciation and Amortization</u>		
(3A)	(11)	To adjust depreciation expense to reflect new capital expenditures and other adjustments to plant in service.	\$ 58,067	\$ 55,186
(3B)	(12)	To adjust amortization of contributions in aid of construction.	(3,398)	(9,097)
(3)		<u>Total Depreciation and Amortization</u>	\$ 54,669	\$ 46,089
(4)		<u>Taxes Other Than Income Taxes</u>		
(4A)	(13)	To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a rate of 0.471772446%.	\$ (17,500)	\$ (18,190)
(4B)	(14)	To adjust property taxes to reflect new capital expenditures and adjusted net plant in service.	82,344	83,572
(4)		<u>Total Taxes Other Than Income Taxes</u>	\$ 64,844	\$ 65,382
(5)		<u>Income Taxes</u>		
(5A)	-	To adjust state income taxes on pro forma income at 5%.	16,370	677
(5B)	-	To adjust federal income taxes on pro forma income at 21%.	\$ 43,029	\$ 2,702
(5)		<u>Total Income Taxes</u>	\$ 59,399	\$ 3,379
(6)	(15)	<u>Other Income - AFUDC</u> To remove AFUDC from test year income.	\$ (16,578)	\$ (16,578)

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(7)	(16)	<u>Amortization of Debt Expense</u> To remove the amortization of debt expense. Debt expense is included in the calculation of the weighted average cost of debt for the calculation of interest expense.	\$ <u>(35,437)</u>	\$ <u>(35,437)</u>
(8)	-	<u>Plant in Service</u> To adjust gross plant in service as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>599,616</u>	\$ <u>594,730</u>
(9)	-	<u>Accumulated Depreciation</u> To adjust accumulated depreciation as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(209,644)</u>	\$ <u>0</u>
(10)	-	<u>Contributions in Aid of Construction (CIAC)</u> To adjust contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>(4,251)</u>	\$ <u>0</u>
(11)	-	<u>Accumulated Amortization of CIAC</u> To adjust the accumulated amortization of contributions in aid of construction as of 1/31/19. See Audit Exhibit CLS-3.	\$ <u>4,421</u>	\$ <u>0</u>
(12)	-	<u>Accumulated Deferred Income Taxes</u> To adjust accumulated deferred income taxes.	\$ <u>(1,564)</u>	\$ <u>(1,564)</u>
(13)	-	<u>Excess Deferred Income Taxes (EDIT)</u> To adjust rate base for the creation of an excess tax collection liability resulting from lower federal tax rates as calculated by the ORS Utility Rates Department.	\$ <u>(456,531)</u>	\$ <u>0</u>
(14)	-	<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-5.	\$ <u>(103,519)</u>	\$ <u>57,887</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(15)	(16)	<u>Interest Expense</u>		
		To synchronize interest expense with the portion of rate base financed by debt.	\$ (698,690)	\$ (696,982)
<u>ORS's Proposed Increase</u>				
(16)		<u>Operating Revenues</u>		
(16A)	(17)	To adjust residential revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ 18,878	\$ 106,533
(16B)	(17)	To adjust residential-mobile home park revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	\$ 318	\$ 3,054
(16C)	(17)	To adjust commercial revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	27,961	156,633
(16D)	(17)	To adjust multiple family dwelling revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	66,502	349,578
(16E)	-	To adjust other revenues to reflect the proposed rates as calculated by the ORS Utility Rates Department.	857	0
(16)		<u>Total Operating Revenues</u>	\$ <u>114,516</u>	\$ <u>615,798</u>
<u>Operating Expenses</u>				
(17)	(18)	To adjust bad debt expense at 1% of the total proposed increase to revenues at proposed rates.	\$ <u>1,145</u>	\$ <u>6,158</u>
(18)	(19)	<u>Taxes Other Than Income Taxes</u>		
		To adjust utility regulatory assessment fees after the proposed increase adjustments using a rate of 0.471772446%.	\$ <u>540</u>	\$ <u>2,905</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended August 31, 2018

ORS Adj. #	PWR Adj. #	Description	ORS	PWR
(19)		<u>Income Taxes</u>		
(19A)	(21)	To adjust state income taxes on the proposed increase income at 5%.	5,641	30,337
(19B)	(20)	To adjust federal income taxes on the proposed increase income at 21%.	\$ 22,510	\$ 121,043
(19)		<u>Total Income Taxes</u>	<u>\$ 28,151</u>	<u>\$ 151,380</u>
(20)		<u>Amortization of Excess Revenues and EDIT</u>		
(20A)		To increase income by the annual amortization of excess revenues due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.	\$ 77,236	\$ 0
(20B)		To increase income by the annual amortization of excess deferred income taxes due to the Tax Cuts and Jobs Act. This adjustment was provided by the ORS Utility Rates Department.	13,662	0
(20)		<u>Total Amortization of Excess Revenues and EDIT</u>	<u>\$ 90,898</u>	<u>\$ 0</u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Depreciation and Amortization Expense (Alpine Utilities and Woodland Utilities Service Areas)
For the Test Year Ended August 31, 2018

Description	PWR Plant in Service @ 1/31/19	ORS Adjustments	Less: Fully Depreciated Plant	ORS Plant in Service for Depreciation Expense	Service Life	Depreciation Rate	Depreciation Expense
	\$	\$	\$	\$	Years	%	\$
<u>Collection Sewers - Gravity</u>							
PVC - 4" to 30"	5,305,167	-	-	5,305,167	45	2.22%	117,775
DIP - 4" to 30"	25,736	-	-	25,736	45	2.22%	571
Manholes	548,174	-	-	548,174	30	3.33%	18,254
	5,879,077	-	-	5,879,077			136,600
<u>Collection System - Services to Customers</u>							
Services	548,519	-	-	548,519	38	2.63%	14,426
Elder Valves	138,398	-	-	138,398	38	2.63%	3,640
Grease Traps	3,411	-	-	3,411	38	2.63%	90
	690,328	-	-	690,328			18,156
<u>Flow Measuring Devices</u>							
Flow Measuring Devices	672	-	(672)	-	5	20.00%	-
Total Collection Plant	6,570,077	-	(672)	6,569,405			154,756
<u>Pumping Plant</u>							
Pumping Equipment	437,423	-	(56,870)	380,553	18	5.56%	21,159
Total Pumping Plant	437,423	-	(56,870)	380,553			21,159
<u>Treatment & Disposal Plant</u>							
Land and Land Rights	57,112	-	-	57,112			N/A
Structures & Improvements	201,386	-	(1,315)	200,071	32	3.13%	6,262
Power Generating Equipment	55,994	-	-	55,994	20	5.00%	2,800
Treatment & Disposal Equipment	6,530,228	-	(399,752)	6,130,476	18	5.56%	340,854
Outfall Sewer Lines	397,571	-	(379,716)	17,855	30	3.33%	595
Other Plant and Miscellaneous Equipment	20,047	-	(20,047)	-	18	5.56%	-
Total Treatment and Disposal Plant	7,262,338	-	(800,830)	6,461,508			350,511
<u>General Plant</u>							
Structures and Improvements	107,538	-	(1,526)	106,012	32	3.13%	3,318
<u>Office Furniture and Equipment</u>							
Office Furniture and Equipment	5,042	-	-	5,042	15	6.67%	336
Computer and Software	31,533	-	(14,481)	17,052	6	16.67%	2,843
	36,575	-	(14,481)	22,094			3,179
Tools, Shop, and Garage Equipment	7,822	-	-	7,822	16	6.25%	489
Laboratory Equipment	5,361	-	-	5,361	15	6.67%	358
Power Operated Equipment	685,595	(102,944)	-	582,651	12	8.33%	48,535
Communication Equipment	28,817	-	-	28,817	10	10.00%	2,882
Miscellaneous Equipment	25,759	-	-	25,759	15	6.67%	1,718
Total General Plant	897,467	(102,944)	(16,007)	778,516			60,479
Total Plant in Service	15,167,305	(102,944)	(874,379)	14,189,982			586,905
Less: Per Book Depreciation Expense							528,838
ORS Adjustment #3 - Depreciation Expense							58,067
Accumulated Depreciation as of 1/31/19				(3,843,384)			
ORS Adjustment				26,158			
Total Adjusted Accumulated Depreciation as of 1/31/19				(3,817,226)			

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Depreciation and Amortization Expense (Alpine Utilities and Woodland Utilities Service Areas)
For the Test Year Ended August 31, 2018

Description	PWR Contributions in Aid of Construction @ 1/31/19	ORS Adjustments	Less: Fully Amortized CIAC	ORS CIAC for Amortization Expense	Service Life Years	Amortization Rate %	Amortization Expense \$
<u>Collection Sewers - Gravity</u>	\$	\$	\$	\$			\$
PVC - 4" to 30"	(530,706)	-	266,045	(264,661)	45	2.22%	(5,875)
DIP - 4" to 30"	(25,736)	-	-	(25,736)	45	2.22%	(571)
Manholes	(64,546)	-	-	(64,546)	30	3.33%	(2,149)
	(620,988)	-	266,045	(354,943)			(8,595)
<u>Collection System - Services to Customers</u>							
Services	(36,319)	-	-	(36,319)	38	2.63%	(955)
Elder Valves	(34,301)	-	-	(34,301)	38	2.63%	(902)
Grease Traps	-	-	-	-	38	2.63%	-
	(70,620)	-	-	(70,620)			(1,857)
<u>Flow Measuring Devices</u>							
Flow Measuring Devices	-	-	-	-	5	20.00%	-
Total Collection Plant	(691,608)	-	266,045	(425,563)			(10,452)
<u>Pumping Plant</u>							
Pumping Equipment	(653)	-	-	(653)	18	5.56%	(36)
Total Pumping Plant	(653)	-	-	(653)			(36)
<u>Treatment & Disposal Plant</u>							
Land and Land Rights	-	-	-	-			N/A
Structures & Improvements	-	-	-	-	32	3.13%	-
Power Generating Equipment	-	-	-	-	20	5.00%	-
Treatment & Disposal Equipment	(2,847)	-	-	(2,847)	18	5.56%	(158)
Outfall Sewer Lines	-	-	-	-	30	3.33%	-
Other Plant and Miscellaneous Equipment	-	-	-	-	18	5.56%	-
Total Treatment and Disposal Plant	(2,847)	-	-	(2,847)			(158)
<u>General Plant</u>							
Structures and Improvements	-	-	-	-	32	3.13%	-
<u>Office Furniture and Equipment</u>							
Office Furniture and Equipment	-	-	-	-	15	6.67%	-
Computer and Software	-	-	-	-	6	16.67%	-
	-	-	-	-			-
Tools, Shop, and Garage Equipment	-	-	-	-	16	6.25%	-
Laboratory Equipment	-	-	-	-	15	6.67%	-
Power Operated Equipment	-	-	-	-	12	8.33%	-
Communication Equipment	-	-	-	-	10	10.00%	-
Miscellaneous Equipment	(1,250)	-	-	(1,250)	15	6.67%	(83)
Total General Plant	(1,250)	-	-	(1,250)			(83)
Total Plant in Service	(696,358)	-	266,045	(430,313)			(10,729)
Less: Per Book Amortization-Contributions in Aid of Construction							(7,331)
ORS Adjustment #3B - Amortization-Contributions in Aid of Construction							(3,398)
Accumulated Amortization as of 1/31/19				407,709			

Audit Exhibit CLS-4

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Computation of Income Taxes
For the Test Year Ended August 31, 2018

After Accounting & Pro Forma Adjustments

	\$
Operating Revenues	3,361,460
Operating Expenses	<u>2,685,729</u>
Net Operating Income Before Taxes	675,731
Less: Annualized Interest Expense	<u>221,679</u>
Taxable Income - State	454,052
State Income Tax %	<u>5.0%</u>
State Income Taxes	22,703
Less: State Income Taxes Per Book	<u>6,333</u>
ORS Adjustment #5A - State Income Taxes	<u>16,370</u>
Taxable Income - Federal	431,349
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	90,583
Less: Federal Income Taxes Per Book	<u>47,554</u>
ORS Adjustment #5B - Federal Income Taxes	<u>43,029</u>
Total Adjustment to Income Taxes	<u>59,399</u>

After ORS's Proposed Increase

	\$
Operating Revenues	3,475,976
Operating Expenses	<u>2,687,414</u>
Net Operating Income Before Taxes	788,562
Less: Annualized Interest Expense	<u>221,679</u>
Taxable Income - State	566,883
State Income Tax %	<u>5.0%</u>
State Income Taxes	28,344
Less: State Income Taxes As Adjusted	<u>22,703</u>
ORS Adjustment #19A - State Income Taxes	<u>5,641</u>
Taxable Income - Federal	538,539
Federal Income Taxes %	<u>21.0%</u>
Federal Income Taxes	113,093
Less: Federal Income Taxes As Adjusted	<u>90,583</u>
ORS Adjustment #19B - Federal Income Taxes	<u>22,510</u>
Total Adjustment to Income Taxes	<u>28,151</u>

Audit Exhibit CLS-5

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Cash Working Capital
For the Test Year Ended August 31, 2018

After Accounting & Pro Forma Adjustments

Operating Expenses	1,464,179
Allowable Rate	<u>12.50%</u>
Computed Cash Working Capital	183,022
Less: Cash Working Capital - Application Per Books	<u>286,541</u>
ORS Adjustment #14 - Cash Working Capital	<u><u>(103,519)</u></u>

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Weighted Cost of Capital
For the Test Year Ended August 31, 2018

Audit Exhibit CLS-6

Description	Application Per Books					After Accounting and Pro forma Adjustments					After ORS's Proposed Increase				
	Capital Structure	Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For			
						Return *	Return *	Return *				Return *	Return *		
Long-Term Debt	\$ 15,982,546	45.00%	\$ 4,475,546	5.23%	2.35%	\$ 234,071	\$ 4,398,383	5.04%	2.27%	\$ 221,679	\$ 4,398,383	5.04%	2.27%	\$ 221,679	
Members' Equity	19,534,223	55.00%	5,470,111	16.49%	9.07%	901,907	5,375,802	6.34%	3.48%	340,766	5,375,802	9.60%	5.28%	516,344	
Totals	\$ 35,516,769	100.00%	\$ 9,945,657		11.42%	\$ 1,135,978	\$ 9,774,185		5.75%	\$ 562,445	\$ 9,774,185		7.55%	\$ 738,023	

Palmetto Wastewater Reclamation, LLC
Docket No. 2018-82-S
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended August 31, 2018

<u>Description</u>	(1) <u>Per Application</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Company's Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	3,257,650	103,810 (1)	3,361,460	644,107 (16)	4,005,567
<u>Total Utility Operating Revenues</u>	<u>3,257,650</u>	<u>103,810</u>	<u>3,361,460</u>	<u>644,107</u>	<u>4,005,567</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	946,889	517,290 (2)	1,464,179	6,441 (17)	1,470,620
Depreciation and Amortization	521,507	54,669 (3)	576,176	0	576,176
Taxes Other Than Income Taxes	580,530	64,844 (4)	645,374	3,039 (18)	648,413
Income Taxes	53,887	59,399 (5)	113,286	158,339 (19)	271,625
<u>Total Utility Operating Expenses</u>	<u>2,102,813</u>	<u>696,202</u>	<u>2,799,015</u>	<u>167,819</u>	<u>2,966,834</u>
<u>Net Utility Operating Income (Loss)</u>	<u>1,154,837</u>	<u>(592,392)</u>	<u>562,445</u>	<u>476,288</u>	<u>1,038,733</u>
Add: Other Income - AFUDC	16,578	(16,578) (6)	0	0	0
Less: Amortization of Debt Expense	35,437	(35,437) (7)	0	0	0
Add: Amortization of Excess Revenues & EDIT	0	0	0	90,898 (20)	90,898
<u>Net Income (Loss) for Return</u>	<u>1,135,978</u>	<u>(573,533)</u>	<u>562,445</u>	<u>567,186</u>	<u>1,129,631</u>
<u>Original Cost Rate Base:</u>					
Plant in Service	14,464,745	599,616 (8)	15,064,361	0	15,064,361
Accumulated Depreciation	(3,607,582)	(209,644) (9)	(3,817,226)	0	(3,817,226)
Contributions in Aid of Construction (CIAC)	(692,107)	(4,251) (10)	(696,358)	0	(696,358)
Accumulated Amortization of CIAC	403,288	4,421 (11)	407,709	0	407,709
Net Plant	10,568,344	390,142	10,958,486	0	10,958,486
Accumulated Deferred Income Taxes	(974,895)	(1,564) (12)	(976,459)	0	(976,459)
Excess Deferred Income Taxes (EDIT)	0	(456,531) (13)	(456,531)	0	(456,531)
Materials and Supplies	8,138	0	8,138	0	8,138
Prepayments	57,529	0	57,529	0	57,529
Cash Working Capital	286,541	(103,519) (14)	183,022	0	183,022
<u>Total Rate Base</u>	<u>9,945,657</u>	<u>(171,472)</u>	<u>9,774,185</u>	<u>0</u>	<u>9,774,185</u>
<u>Return on Rate Base</u>	<u>11.42%</u>		<u>5.75%</u>		<u>11.56%</u>
<u>Operating Margin</u>	<u>6.62%</u>		<u>10.14%</u>		<u>22.67%</u>
<u>Interest Expense</u>	<u>920,369</u>	<u>(698,690) (15)</u>	<u>221,679</u>	<u>0</u>	<u>221,679</u>